



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony to Insurance and Real Estate Committee

February 25, 2014

Raised S.B. No. 189 AN ACT CONCERNING THE INSURANCE DEPARTMENT'S MARKET CONDUCT EXAMINATION AUTHORITY

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department thanks the Committee for raising, Senate Bill 189: An Act Concerning Insurance Department Market Conduct Examination Authority, at the Department's request and appreciates the opportunity to provide the following testimony.

This bill amends the current market conduct statute with respect to the cost of exams, use of consultants paid by the regulated entity, payment for out of state travel by the examined entity and work paper confidentiality. This proposal would provide an explicit statutory confidentiality protection to the examination work papers which contain sensitive trade and commercial information. In addition, this proposal would permit the Department to charge for the cost of using outside professionals or specialist as consultants.

The Department has taken into consideration the concerns expressed by the Ranking Members of the Committee and industry regarding past iterations of this legislation and have made appropriate revisions. Unlike past years when similar legislation had been proposed, the scope of this bill is narrowly tailored to only permit the Department to charge domestic companies for the use of consultants for targeted exams and multi-state exams where companies have already exhibited patterns of inappropriate behavior that could ultimately undermine consumer protections. Additional protective measures include:

1. The Department will only charge domestic companies when an exam results in a negative finding against a carrier.
2. All contracting with consultants will be done in accordance with all state laws and executive branch contracting procedures.
3. Also, pursuant to this legislation the Commissioner must make a finding that the Department either lacks the resources or expertise in order to solicit the use of a contracted consultant.

A targeted exam is a focused examination reviewing either a specific line of business or a specific business practice and only occurs when a carrier has demonstrated a pattern of behavior that is harmful to consumers. A multi-state market conduct exam is a targeted exam that occurs when a company's pattern of inappropriate behavior has impacted consumers in multiple states. Traditionally, the Lead Regulator of a multi-state exam is the regulatory body of the domestic company. However, since Connecticut currently lacks a sufficient confidentiality provision and the ability to hire consultants in its Market Conduct statutes, it must cede authority to a foreign regulatory body. Consequently, a Connecticut domiciled company under a multi-state exam will fall under the auspices of a foreign regulator and be subject to its

contracting procedures. Anecdotally, it has been stated that contracting procedures in most other states are not as stringent nor are they as transparent as those used by the Connecticut Department of Insurance. Stories of exorbitant fees charged by foreign regulatory bodies to Connecticut companies without recourse are not uncommon. Should this legislation not pass, Connecticut companies will continue to be subject to charges by out-of-state regulators for the use of consultants, likely without the rigorous contracting safeguards offered by the Connecticut Insurance Department.

The state's domestic insurers have in the past raised concerns over the potential cost burden associated with the Department's use of consultants. At times it has been suggested that the Department simply increase its annual assessment fees on all domestic carriers to cover its expenses for Market Conduct exams. This is certainly an option which will likely be revisited should this legislation not pass. However, we contend in the interest of fairness, it is preferable to not ask domestic companies that have acted in accordance with our laws and regulations to subsidize those companies that have demonstrated patterns of poor behavior.

We want to assure our domestic insurers that it is not the Department's intent to start outsourcing market conduct examinations or to even use consultants on a regular basis. Our purpose in requesting this authority is to provide the Department with the ability to use consultants when we do not have sufficient expertise in a particular area needing examination. As consistent with our contracting protocols, the Department will oversee the consultants and have procedures in place to manage the examination process to ensure that exam costs are properly managed.

We believe the use of consultants to augment staff when needed for a particular expertise is a reasonable approach to maintaining a lean and cost effective full-time staff.

The Department again, thanks the Committee for raising Senate Bill 189 and encourages the Committee's passage of this bill.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.